Prince Edward Island
CANADA

# Civil Service Superannuation Fund

## Annual Report 2007-2008

The Honourable Barbara Hagerman
Lieutenant Governor of Prince Edward Island
PO Box 846
Charlottetown, PE C1A 7L9

May it Please Your Honour:

In accordance with Section 6 of the *Civil Service Superannuation Act*, I am pleased to present to you the Annual Report of the Province of Prince Edward Island Civil Service Superannuation Fund for the fiscal year ended March 31, 2008.

Respectfully submitted,

Wes Sheridan,
Provincial Treasurer

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# Introduction

The Civil Service Superannuation Fund (CSSF) was established in 1945 and provides retirement income to members and dependents of deceased members, in accordance with the Civil Service Superannuation Act (CSSA).

# Plan Description

The CSSF is a contributory, defined benefit pension plan financed by contributions from participating employers and employees, and by investment earnings from the Master Trust Investment Fund.

**Contributions** – In 2007-2008, members of the plan contributed:

- 8.75 percent of pensionable earnings up to $3,500 (Canada Pension Plan's (CPP) basic exemption threshold),
- 6.95 percent of pensionable earnings from $3,501 to CPP's Yearly Maximum Pensionable Earnings (YMPE), and
- 8.75 percent of pensionable earnings in excess of the YMPE.

The YMPE was $43,700 for 2007 and $44,900 for 2008.

The employer pays to the fund an amount equal to that paid by the members.

**Membership** – The general criteria for membership to the CSSF is that an employee must be permanent with an approved participating employer.

**Retirement Pension** – An unreduced monthly pension is payable for life to a member who has attained the age of 60 with two or more years of pensionable service or a member who has attained the age of 55 years with 30 or more years of pensionable service. The benefit is calculated as 2.0 percent multiplied by the years of pensionable service, multiplied by the average of the three highest years of pensionable earnings. Please note that for salary below the CPP's YMPE, the 2.0 percent benefit is comprised of:

a) a 1.3 percent life-time benefit, and

b) a temporary bridge benefit of 0.7 percent from the date of retirement to age 65.

**Early Retirement** – Eligible members can opt for an early retirement pension benefit as early as age 55. In these cases, the pension amount is reduced by the lessor of:

a) 3.0 percent for each year prior to age 60, or

b) 3.0 percent for each year prior to attaining 30 years of pensionable service.

**Benefits on Termination** – A member in the CSSF becomes vested after two years of continuous service in the plan.

a) Vested members are eligible for either a deferred pension or a refund of employee contributions plus interest.

b) Non-vested members are eligible for a refund of employee contributions plus interest.

**Inflation Protection** – Pensions are increased by the change in the Consumer Price (all items) Index for Canada, to a maximum of 6.0 percent, on the first day of April of each year. The pension payment received upon retirement and the value of a deferred pension benefit, are both indexed annually under the CSSF. Indexation applied at April 1, 2007 was 2.0 percent.

**Death Benefits** – The CSSF provides for both spousal and dependent benefits to eligible survivors of vested members.

## Fund Administration

Administration of the CSSA is assigned to the Pensions and Benefits Section of the Fiscal Management Division, Provincial Treasury. The Fiscal Management Division of the Department of the Provincial Treasury also provides investment management support for the Province of Prince Edward Island Master Trust.

The CSSF's assets are managed independently by professional fund managers. The fund managers responsible for the CSSF's investments as at March 31, 2008, were:

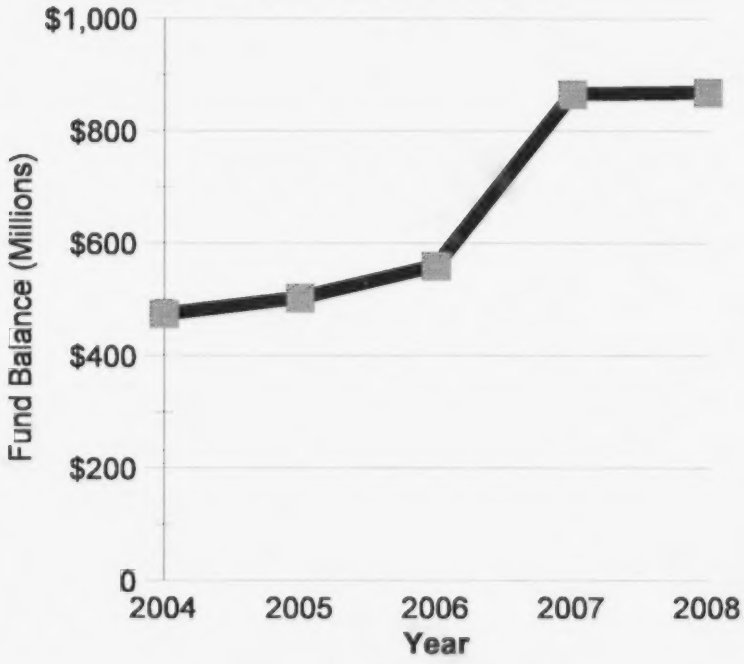
1) Beutel, Goodman and Company Limited
2) McLean Budden Limited
3) Northwater Capital Management Incorporated
4) Franklin Templeton Management Limited
5) Capital Guardian Trust Company, and
6) Burgundy Asset Management Limited

The total asset balance of the CSSF at March 31, 2008 was approximately $868 million, up from $865 million in 2007.

**Diagram 1** shows the CSSF total asset balance from 2004 - 2008.

**Diagram 1**

**CSSF Total Asset Balance**




The marked increase in the CSSF total asset balance in 2006-2007 relates to the merger of the Uniform Pension Plan (UPP) assets with the CSSF assets. Also, an additional investment by the Province of Prince Edward Island involved a promissory note in the amount of $52 million.

**Employers** – There are 15 remitting payrolls in the CSSF with a total of 6,300 full- and part-time employees. The Province of PEI is the largest employer with 5,880 active contributors, three insurance companies contribute for 180 employees on long-term disability claims, and 240 contributors are employed with 11 other agencies. In addition, there are approximately 155 deferred members.

**Table 1** lists employers and the corresponding number of members.

**Table 1**

## Employers and Total Members

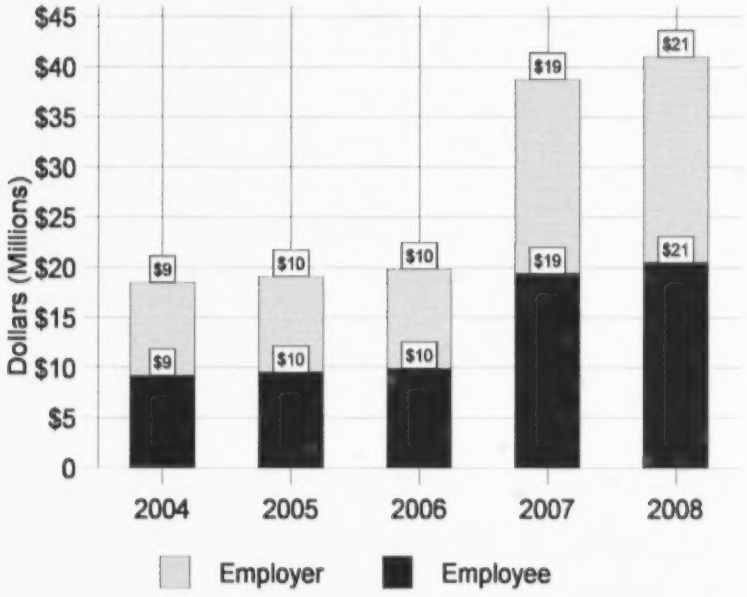
| Employer | Total Members |
|---|---|
| Province of P. E. I. Departments | 5,880 |
| Business Development | 94 |
| Grain Elevators | 10 |
| Health Association | 2 |
| IRAC | 22 |
| IWMC | 1 |
| Lending Agency | 10 |
| PEI School Boards | 13 |
| Potato Board | 10 |
| Status of Women | 3 |
| UPSE | 9 |
| WCB | 66 |
| Great West Life | 29 |
| Manulife Ltd | 141 |
| Sunlife Ltd | 10 |
| **Members** | **6,300** |

**Regular Contributions** – Regular contributions are made to the CSSF via payroll deductions. In 2008, the regular contributions, from both the employer and employees combined, were approximately $41.0 million, up from $38.7 million in 2007. Other contributions include special payments from the Province, payments for prior service, and transfers in from other plans via reciprocal agreements. As with the total asset balance, the increase in contributions in 2006-2007 relates to an influx of approximately 3,400 members into the CSSF due to the merger with the UPP.

**Diagram 2** depicts, by year, the regular employer and employee contributions made to the CSSF.

**Diagram 2**

**Regular Contributions**

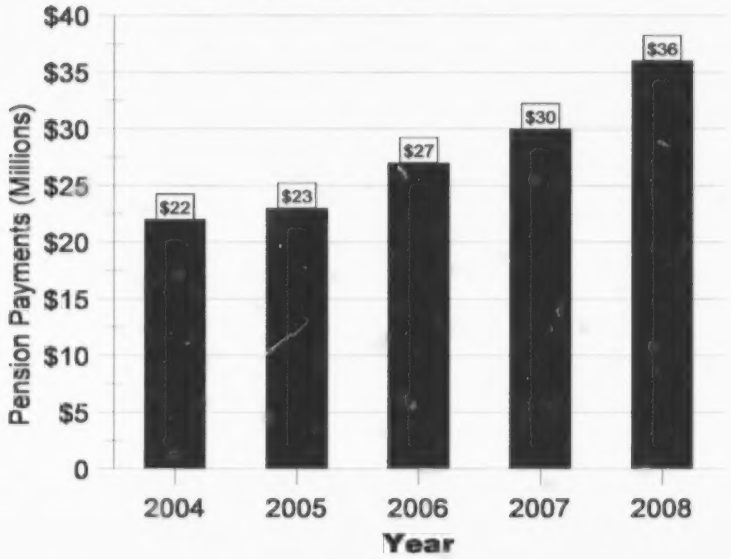


**Special Contribution –** To reduce the unfunded liability of the CSSF, the Province of Prince Edward Island agreed to invest $52 million in the Fund. The investment was in the form of a $52 million promissory note from the Province of Prince Edward Island to the Fund. This note is receivable in ten equal annual installments of $5.2 million beginning October 15, 2006 plus interest at the rate of 4.41% per annum. Interest is to be paid semi-annually on October 15 and April 15.

**Pension Payments** – Annual pension payments in 2008 were approximately $36 million, an increase from $22 million in 2004. This is shown in **Diagram 3**. In the fiscal year 2007-2008, approximately 91 percent of the pension payroll was paid to members and the remaining 9 percent was paid out as spousal and dependent benefits.

**Diagram 3**

**Pension Payments**



**Pensioners** – The respective number of pensioners was 2,563 in 2008. **Table 2** outlines the number of new pensioners, their average age and their average annual pension.

**Table 2**
**Number of New Pensioners with Average Age and Average Annual Pension**

| Fiscal Year | No. of New Pensioners | Average Age | Average Annual Pension |
|---|---|---|---|
| 2007-2008 | 117 | 59.16 | $ 18,542 |

**Table 3** outlines the categories of pension recipients and the average annual pension for each category.

**Table 3**
**Pension Categories and Average Annual Pension**

| Category | Number of Persons | | Average Annual Pension | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Members | 2,210 | 1,484 | $ 15,145 | $ 18,381 |
| Spousal | 338 | 330 | $ 9,023 | $ 8,766 |
| Dependents | 15 | 18 | $ 3,822 | $ 2,639 |
| **Total Pensions** | **2,563** | **1,832** | | |

The CSSF became responsible for an additional 636 retirees from the UPP that are not included in the 2007 numbers above. Their average annual UPP Basic Benefit pension is $6,528.

**Actuarial Requirement** – Federal legislation requires that an actuarial valuation be performed once every three years to evaluate the funding status of the CSSF. Actuarial valuation reports require best estimate assumptions about future events to determine the liabilities of the fund as of the valuation date. The actual assets of the fund, as of the valuation date, are then compared to the liabilities to determine the plan's funding status.

The most recent actuarial valuation was completed as of April 1, 2005. This valuation was based on the following membership data:

1) 3,214 Active Members
   Average Salary of $43,501
   Average Age of 47.5 Years

2) 158 Deferred Members
   Average Annual Pension of $10,667
   Average Age of 49.5 Years

3) 1,584 Retirees
   Average Annual Pension of $15,121
   Average Age of 70.0 Years

The value of the plan assets as at April 1, 2005, was $502,034,000, which represents 80 percent of the actuarial liability of $625,265,000. Table 4 details the statement of financial position as at April 1, 2005.

## Table 4

## Going-Concern Financial Position

## April 1, 2005

| **Value of Assets** | | |
|---|---|---|
| Market Value | $ 502,034,000 | |
| | **Actuarial Liability** | **Percentage of Total Liabilities** |
| Active Members | $ 345,987,000 | *55%* |
| Deferred Members | 14,588,000 | *3%* |
| Retired Members and Beneficiaries | 264,690,000 | *42%* |
| **Total** | **$ 625,265,000** | |
| Actuarial Surplus (Unfunded Liability) | $ (123,231,000) | |
| Funding Ratio | 80.3% | |

# Highlights for 2007-2008

## Act/Regulations

During the fiscal year 2007-2008, staff of Pensions and Benefits, in co-ordination with Legal and Judicial Services, Office of the Attorney General, received assent on the following amendments to the Act:

**Minimum number of hours required to remain in the CSSF**

- There is no longer a requirement for permanent employees to work a minimum of 600 hours each year in order to retain their membership in the CSSF. Regardless of hours worked per year, a permanent employee will continue to be a member of the CSSF.

**Removal of the 35-year pensionable service cap**

- With the removal of the 35-year cap on membership in the CSSF, it is now required that a member continue to contribute to the CSSF beyond their 35th year of pensionable service. This also means that a member's pension benefit will be calculated based on their total pensionable service.

**Change to the vesting period**

- In order to have the right to draw a pension benefit from the CSSF, a member must be vested. The vesting period has changed from 5 years to 2 years.

## Administration Initiatives

Work continues on collecting and verifying historical data for the employees of crown corporations, agencies, boards, and commissions who participate in the CSSF. When this data is complete, it will allow annual pension statements to be produced for these employees.

As a result of the UPP conversion, a project is underway to load all of the data relating to this conversion into the pension administration system.

## Investment Management

The largest contributor to the growth of CSSF assets is normally investment income. These investments are held in the Province of Prince Edward Island Master Trust. The CSSF, MLA Pension Fund and the Teachers' Superannuation Fund participate in the Master Trust. In 2008, approximately 67 percent of the funds in the Master Trust were assets of the CSSF.

The annual rate of return of the Master Trust as of March 31, 2008 was -3.1 percent. The total return on the Master Trust Fund since March 31,1998 was 5.7 percent.

## CSSF Assets

During 2007-2008, there was a net increase to CSSF assets of approximately $3 million.

**Table 5** shows the receipts and income, by source, which totalled approximately $45 million.

**Table 5**
**Receipts and Income**

| Type | Amount |
|---|---|
| Employer Contributions | $ 20,501,187 |
| Employee Contributions | 20,501,187 |
| Investment Income | 34,077,305 |
| Transfers From Other Plans | 2,457,934 |
| Purchased Service | 25,386,753 |
| Refund Repayments | 1,016,398 |
| Market Value Increase (Decrease) | (58,598,632) |
| **Total** | **$ 45,342,132** |

**Table 6** shows the expenditures for 2007-2008, which totalled approximately $42 million.

## Table 6
## CSSF Expenditures

| Type | Amount | Percentage of Expenditures |
|---|---|---|
| Benefits Paid | $36,220,107 | |
| Transfers | 1,053,451 | |
| Refunds | 930,090 | |
| **Total Benefit Expenditures** | **$38,203,648** | **91%** |
| Benefit Administration | $ 343,052 | |
| System Fees | 51,491 | |
| Consulting Fees | 921,459 | |
| Bank/Miscellaneous Expenses | 1,420 | |
| Pension Payroll TPA fees | 22,922 | |
| **Total Benefit Administration Expenditures** | **$ 1,340,344** | **3%** |
| Investment Manager Fees | $ 2,286,703 | |
| Monitoring Fees | 100,013 | |
| Custodial Fees | 145,803 | |
| Investment Management Support | 77,845 | |
| **Total Investment Management Expenditures** | **$ 2,610,364** | **6%** |
| **Total** | **$42,154,356** | **100%** |

# Administrative Advisory Committee

The Administrative Advisory Committee provides a forum for the purposes of reviewing issues which may arise in the administration of the plan and providing advice to the Provincial Treasurer on such issues. As of March 31, 2008, the committee had eleven members as follows:

| No of Members | Member | |
|---|---|---|
| 1 | *Chairperson* - Deputy Provincial Treasurer | Paul Jelley |
| 1 | International Union of Operating Engineers | Bill Bylhouwer |
| 1 | PEI Nurses' Union | Blair MacDonald |
| 1 | Canadian Union of Public Employees | Lane MacLaren |
| 2 | Union of Public Sector Employees | Shelley Ward<br>Don MacDonald |
| 2 | Provincial Treasury | Scott Stevens<br>Doug Clow |
| 2 | Department of Health | Muriel MacLeod<br>Gordon MacFadyen |
| 1 | PEI Public Service Commission | Allan O'Keefe |

# Master Trust Investment Advisory Committee

The Master Trust Investment Advisory Committee provides advice to the Provincial Treasurer on the following items:

- protection of the principal assets of the Master Trust;
- monitoring of costs;
- recommendations on investment fund asset mix;
- review of investment fund and fund manager performance standards; and
- compliance with both federal and provincial requirements relating to ownership of foreign equities.

Due to the merger of the CSSF and the former Uniform Pension Plan, the Master Trust Investment Advisory Committee and the Province of Prince Edward Island committed to restructuring the committee.

At March 31, 2008, restructuring had not yet taken place.

At March 31, 2008, the following were members of the Master Trust Investment Advisory Committee:

| | |
|---|---|
| *Chairperson* - Deputy Provincial Treasurer | Paul Jelley |
| Prince Edward Island Teachers' Federation | Duncan McKillop<br>Michel Plamondon<br>Allan Ledgerwood |
| Union of Public Sector Employees | Don MacDonald<br>Donalda Docherty<br>Harry MacDonald<br>Shelley Ward |
| Provincial Government | Doug Clow<br>Terry Hogan<br>Ken MacRae<br>Scott Stevens<br>Bill Harper |
| Ex Officio outside designates | Tim Van Alstyne,<br>*Dominion Securities*<br>Bill Hastie,<br>*Scotia Capital*<br>Paul Malizia and<br>Tony Politano,<br>*Hewitt Associates*<br>*Investment Council* |

# Audit Requirement

In accordance with Section 13 of the *Audit Act*, the financial statements have been examined by the Office of the Auditor General whose report is included as an appendix to this annual report.

# Contact Information

For further information concerning the administration of the **Civil Service Superannuation Act**, please contact:

Pensions and Benefits
Department of Finance and Municipal Affairs
Sullivan Building, 16 Fitzroy Street
PO Box 2000
Charlottetown, PE C1A 7N8
Telephone: (902) 368-4200
Fax: (902) 368-6622

Terry Hogan, Manager
Crystal Burrows, Operations Supervisor
Pamela MacEachern, A/Pension Information Officer

For further information concerning the **Master Trust Fund**, please contact:

Alan Silliker, Manager
Investments and Banking
Department of Finance and Municipal Affairs
Tel: (902) 569-7666

# Appendix

# AUDITOR GENERAL

CHARLOTTETOWN

PRINCE EDWARD ISLAND

PROVINCE OF PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

FINANCIAL STATEMENTS

MARCH 31, 2008

## AUDITOR GENERAL

CHARLOTTETOWN
PRINCE EDWARD ISLAND

### AUDITOR'S REPORT

Honourable Wesley J. Sheridan
Provincial Treasurer
Province of Prince Edward Island

I have audited the statement of net assets available for benefits of the Civil Service Superannuation Fund as at March 31, 2008 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Provincial Treasurer. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2008 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

Colin Younker, CA
Auditor General

Charlottetown, Prince Edward Island
February 3, 2009

STATEMENT 1

PROVINCE OF PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

AS AT MARCH 31, 2008

| | 2008 | 2007 |
|---|---|---|
| ASSETS | | |
| Cash | $ 2,793,766 | $ 1,077,978 |
| Receivables | | |
| Contributions receivable - employees | 1,223,687 | 1,072,782 |
| Contributions receivable - employers | 1,832,590 | 1,582,322 |
| Other | 366,324 | 300,960 |
| Accrued interest | 841,680 | 1,051,812 |
| Current portion of note receivable | 5,200,000 | 10,400,000 |
| | 12,258,047 | 15,485,854 |
| Investments (Notes 2(a) and 3) | 819,714,189 | 808,135,610 |
| Note receivable (Note 5) | 36,400,000 | 41,600,000 |
| Total assets | $868,372,236 | $865,221,464 |
| LIABILITIES | | |
| Accounts payable | $ 1,831,042 | $ 1,868,046 |
| NET ASSETS AVAILABLE FOR BENEFITS | $866,541,194 | $863,353,418 |

(The accompanying notes are an integral part of these financial statements.)

STATEMENT 2

PROVINCE OF PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FOR THE YEAR ENDED MARCH 31, 2008

| | 2008 | 2007 |
|---|---|---|
| INCREASE IN ASSETS | | |
| Investment income | | |
| Interest | $ 21,737,769 | $ 19,542,186 |
| Dividends | 12,339,536 | 7,594,363 |
| | 34,077,305 | 27,136,549 |
| Market value increase (decrease) (Note 2(a)) | (58,598,632) | 39,043,280 |
| Contributions | | |
| Employees' contributions | 20,501,187 | 19,378,776 |
| Employers' contributions | 20,501,187 | 19,378,776 |
| Transfers from other plans | 2,457,934 | 182,608,097 |
| Refund repayments | 1,016,398 | 162,553 |
| Purchased service | 25,386,753 | 337,692 |
| Government contribution toward unfunded liability (Note 5) | - | 52,000,000 |
| | 69,863,459 | 273,865,894 |
| Total increase in assets | 45,342,132 | 340,045,723 |
| DECREASE IN ASSETS | | |
| Operating expenses (Note 7) | 3,950,708 | 3,172,799 |
| Benefits paid | 36,220,107 | 30,116,968 |
| Refunds | 930,090 | 786,298 |
| Transfers | 1,053,451 | 1,190,699 |
| Total decrease in assets | 42,154,356 | 35,266,764 |
| INCREASE IN NET ASSETS | 3,187,776 | 304,778,959 |
| NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR | 863,353,418 | 558,574,459 |
| NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR | $866,541,194 | $863,353,418 |

(The accompanying notes are an integral part of these financial statements.)

PROVINCE OF PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2008

1. Description of Plan

The following description of the Civil Service Superannuation Plan is a summary only. For more complete information, reference should be made to the Civil Service Superannuation Act.

a) General
The Plan is a contributory defined benefit plan covering government employees and employees of certain boards, commissions, crown corporations and agencies as defined in the Civil Service Superannuation Act. In addition, the Plan covers employees receiving disability payments under the Employees' Long Term Disability Plan.

b) Contributions
Under the Plan, employees and the employer make equal contributions amounting to 6.95% on that part of the salary on which Canada Pension Plan contributions are made and 8.75% on salary when Canada Pension Plan contributions are not required.

c) Retirement Benefits
A member who has attained age 60 and has completed at least 2 years of service or has attained age 55 and has completed 30 years of service is entitled to an immediate pension which is payable in equal monthly installments.

The annual amount of the pension is equal to 2% of the average salary of the member in the three year period of pensionable service during which such average salary is highest, multiplied by the number of years of pensionable service. When the member reaches the age of 65 (or if he or she is 65 or over at retirement) the amount of pension described above is reduced by 0.7% of the average salary up to the average Maximum Pensionable Earnings under the Canada Pension Plan during the three year period over which the average salary has been computed, multiplied by the number of years of the member's pensionable service after July 1, 1966 or July 1, 1972, depending on the election of the member and payment of the required contributions to be eligible for the smaller offset.

Reduced benefits are available at age 55 with 2 years pensionable service. The pension for a member who retires prior to age 60 (and who is not entitled to an unreduced pension) is calculated as described in the previous paragraph but then is reduced by 0.25% for each month by which the early retirement date precedes the member's earliest unreduced retirement age. It is calculated by using the lesser of the number of months between the date of actual retirement and the date the member would attain age 60 or the number of months between the date of actual retirement and the date the member would have at least thirty years of service.

1. Description of Plan continued...

The above formula determines the amount of a member's initial pension at retirement. In subsequent years the amount of a member's pension is increased in line with increases in the Consumer Price Index, but the increase in any one year is limited to no more than 6%.

d) Death Benefits

On the death of a member prior to completing 2 years of pensionable service, or after completing 2 years of service but leaving no surviving spouse or cependant children, the member's contributions accumulated with interest will be refunded. If a member dies prior to retirement but after completing 2 years of service, the member's spouse is entitled to an immediate lifetime pension equal to 60% of the accrued, unreduced pension of the member at the time of death. In addition to the spousal pension, an allowance equal to one-sixth of the pension paid to the surviving spouse is payable in respect of each dependent child, up to a maximum of 4 children, until the child attains age 18, or until 21 if the child is attending school full-time.

e) Termination and Portability of Benefits

In the event of termination of employment for reasons other than retirement or death, a member may elect to receive either:

- a refund of the member's own contributions with interest, or
- if the member has completed at least 2 years of service, a deferred annuity commencing when the member attains the age of 60.

Where there are portability arrangements between the Plan and other plans, members may be able to carry certain pension rights to those other plans, or transfer contributions and service from those other plans to increase pension benefits under the Plan.

f) Marriage Breakdowns

Upon application, the pension benefits to which a person is entitled may be divided between the person and the spouse or former spouse.

g) Income Tax

The Plan is a Registered Pension Plan as defined under the Income Tax Act and is not subject to income tax.

PROVINCE OF PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

NOTES TO FINANCIAL STATEMENTS (continued)

MARCH 31, 2008

2. Significant Accounting Policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles, and present the aggregate financial position of the Plan as a separate financial reporting entity independent of the Province of Prince Edward Island and the Plan participants. They are prepared to assist in reviewing the activities of the Plan for the fiscal period but do not portray the funding requirements of the Plan or the benefit security of individual participants. The following accounting policies are considered significant.

a) Investments
With the exception of real estate investments which are valued at cost, investments are valued at quoted market values, or estimated market values, as reported by the custodian of the Master Trust.

Changes in the market value of investments, including realized and unrealized gains resulting from changes in foreign exchange, are reflected in the financial statements as a market value adjustment.

b) Investment Transactions
Investment transactions are recorded on the settlement date. Transactions conducted in foreign currencies are translated into Canadian dollars using the exchange rate in effect at the transaction date. Distributions are recognized on the record date.

3. Investments

a) The investments of the Civil Service Superannuation Fund, MLA Pension Fund, and the Teachers' Superannuation Fund are consolidated into the Province of Prince Edward Island Master Trust. Units are held by each of these funds in the Master Trust. As of March 31, 2008 there were 1,070,682,123 (2007-956,767,057) units held in the Province of Prince Edward Island Master Trust, of which the Civil Service Superannuation Fund held the following:

| | 2008 | 2007 |
|---|---|---|
| Units held | 719,320.817 | 632,047.422 |
| Market value per unit | $1,139.57 | $1,278.60 |
| Total market value held | $819,714,189 | $808,135,610 |

3. Investments continued...

Investments of the Province of Prince Edward Island Master Trust are as follows:

| | 2008 | 2007 |
|---|---|---|
| Canadian short term investments | $ 20,265,080 | $ 26,912,286 |
| US T-Notes | 17,466,236 | 7,426,591 |
| Other liquid assets | 1,586,177 | 906,596 |
| Bonds, debentures and notes | 445,233,971 | 345,253,947 |
| Canadian equity securities | 423,564,993 | 465,940,074 |
| Foreign equity securities | 305,812,862 | 372,250,333 |
| Accrued income | 6,184,640 | 4,624,686 |
| Real estate | - | 7,446 |
| Total | $1,220,113,959 | $1,223,321,959 |

The investments include amounts which the Master Trust Fund managers have invested in their own pooled funds. The market values of these investments are as follows:

| | 2008 | 2007 |
|---|---|---|
| Beutel Goodman & Company Ltd. | $ 20,933,878 | $ 25,036,948 |
| Northwater Capital Management Inc. | 120,427,884 | 122,251,566 |
| Capital Guardian | 140,110,052 | 145,853,271 |
| Burgundy Asset Management Ltd. | - | 44,292,193 |
| Total | $281,471,814 | $337,433,978 |

b) Risk Management

Rates of return vary based on the degree of uncertainty. The fundamental sources of uncertainty to which investments are exposed are credit risk and price risk. Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk is the risk that the value of an investment will fluctuate due to future changes in foreign exchange rates. Interest rate risk is the risk that the value of an investment will fluctuate due to future changes in market interest rates. Market risk is the risk that the value of a financial instrument will fluctuate as a result of future changes in the market prices, whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

The policy of the Master Trust is to invest in a diversified portfolio of investments based on criteria established in the Statement of Investment Policies and Procedures.

4. Obligations for Pension Benefits for Accounting Purposes

The present value of accrued pension benefits was determined using the projected benefit method prorated on service and best estimate assumptions. The most recent actuarial valuation for accounting purposes of the Civil Service Superannuation Fund prepared by Morneau Sobeco disclosed an unfunded liability as at April 1, 2005 of $73,804,000.

The estimated present value of benefits as of March 31, 2008, the principal components of changes in actuarial present values during the year and the estimated surplus were as follows:

| | 2008 | 2007 |
|---|---|---|
| Actuarial present value of accrued benefits at beginning of year | $810,538,950 | $606,023,797 |
| Interest accrued on benefits | 62,675,513 | 50,631,232 |
| Benefits accrued | 31,088,664 | 30,473,976 |
| Increase due to conversion of UPP basic benefit | - | 156,918,128 |
| Increase due to purchases of service | 28,907,685 | - |
| Benefits paid | (38,203,648) | (33,508,183) |
| Actuarial present value of accrued benefits at end of year | 895,007,164 | 810,538,950 |
| Net assets available for benefits | 866,541,194 | 863,353,418 |
| (Surplus) Unfunded liability | $ 28,465,970 | $ (52,814,468) |

The economic assumptions used in determining the actuarial value of accrued pension for accounting purposes were developed by reference to expected long-term market conditions. Significant actuarial assumptions used in the valuation were:

| | |
|---|---|
| Asset rate of return | 7.63% per annum |
| Basic salary escalation rate (excluding promotional increases) | 2.75% per annum |
| Pension cost of living increases | 2.65% per annum |

The Consolidated (Summary) Financial Statements of the Province record the obligation using the accounting method.

5. Funding Policy

In accordance with the Civil Service Superannuation Act, employees are required to contribute as described in Note 1(b). The employer matches employee contributions to the Fund. Under Section 5 of the Civil Service Superannuation Act, payments out of the Fund are guaranteed by the Province of Prince Edward Island. The most recent actuarial valuation for funding purposes was prepared by Morneau Sobeco as of April 1, 2005. This valuation disclosed an unfunded liability as at April 1, 2005 of $123,231,000.

To reduce the unfunded liability of the Civil Service Superannuation Fund, the Province of Prince Edward Island has authorized the issuance of a $52,000,000 promissory note to the Civil Service Superannuation Fund. This note is receivable in ten equal annual installments of $5,200,000 beginning October 15, 2006 plus interest at the rate of 4.41% per annum receivable semi annually on April 15 and October 15. Provided that at any such time prior to October 15, 2015 any monies owing may be suspended, on six months notice, if the Provincial Treasurer deems the funding level of the Civil Service Superannuation Fund to be at a level of 90%, as defined in the Pension Fund Policy. Any interest shall include accrued interest to the date of any suspension implemented. Any monies suspended at any time or times prior to and including October 15, 2015 are no longer due and owing and no further monies are payable and the promissory note shall be deemed paid in full.

The following is a schedule of payments of principal and interest as disclosed in the promissory note:

| Principal Payments | | Interest Payable | |
|---|---|---|---|
| Date of Payment | Principal Payment | October 15 | April 15 |
| October 15, 2006 | $ 5,200,000 | $ - | $1,031,940 |
| October 15, 2007 | 5,200,000 | 1,031,940 | 917,280 |
| October 15, 2008 | 5,200,000 | 917,280 | 802,620 |
| October 15, 2009 | 5,200,000 | 802,620 | 687,960 |
| October 15, 2010 | 5,200,000 | 687,960 | 573,300 |
| October 15, 2011 | 5,200,000 | 573,300 | 458,640 |
| October 15, 2012 | 5,200,000 | 458,640 | 343,980 |
| October 15, 2013 | 5,200,000 | 343,980 | 229,320 |
| October 15, 2014 | 5,200,000 | 229,320 | 114,660 |
| October 15, 2015 | 5,200,000 | 114,660 | - |
| | $52,000,000 | $5,159,700 | $5,159,700 |

Since the promissory note was not signed until March 30, 2007, but provided for a principal payment as of October 15, 2006, additional interest was paid on the scheduled principal payment of October 15, 2006 as the first payment was not made until April 16, 2007.

6. Uniform Pension Plan Amalgamation

At its November 15, 2006 meeting, Treasury Board approved the amalgamation of the Uniform Pension Plan with the Civil Service Superannuation Plan. The amalgamation occurred in three phases:

Phase 1 - the transfer of the calendar year 2006 current service contributions for all active employees as of November 5, 2006 from the UPP to the CSSF.
Phase 2 - the mandatory conversion of the UPP basic benefit accrued as of January 1, 2006.
Phase 3 - the optional conversion of the members' UPP Supplementary accounts.

The final phase of the amalgamation was completed in the current fiscal year and is reflected in the obligation disclosed in Note 4.

7. Operating Expenses

The Fund is charged with administrative and certain other expenses. The following is a summary of these operating expenses:

| | 2008 | 2007 |
|---|---|---|
| Administration expenses | $ 395,964 | $ 288,952 |
| Consulting fees | 921,459 | 739,579 |
| Investment expenses | 2,633,285 | 2,144,268 |
| Total | $3,950,708 | $3,172,799 |

Of the $395,964 administration expenses incurred in 2008, $331,720 (2007 - $219,070) was incurred directly by the Province and was recovered from the Fund.